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Mike McCready and Music Xray

Business model innovation in the music industry

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"New models have to be built around ways to monetize recorded music. You have to be able to make a living as a recorded music artist that maybe doesn't tour, or as a songwriter who doesn't even perform. How do you do that?"

Mike McCready, co-founder of Music Xray.

Music Xray was launched in January 2010. The travails over the past few years had taught McCready many lessons, not least of all that being senior corporate executive was not his calling. As CEO of Polyphonic HMI, a company that marketed a computer algorithm that predicted the hit potential of songs,[1] he had witnessed major record labels struggle to cope with the massive shifts in the industry. He had wondered if the music business would ever return to being the stuff of corporate empires. Though the music business was alive and well, it was now so fragmented that it defied traditional industry business models. Where once there was a dominant model, there were now several models struggling to gain traction. McCready now knew that developing a sustainable model was to be a priority of his.

"Music Xray is really a continuation of what I was trying to get done at Polyphonic," McCready reflected. "The starting point for both of these companies is that the music industry is historically extremely inefficient at finding and developing the next top talent, managing to achieve only a 10% success rate." According to McCready's reasoning, it wouldn't take much to improve on current results, and his initial thoughts were on raising the success rate.

[1] See case study "Polyphonic HMI: Mixing Music and Math" (HBS Publishing, 2005).

This case was prepared by Azra Brankovic, Researcher, Professor Paddy Miller and Thomas Wedell-Wedellsborg, Consultant, as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. February 2012.

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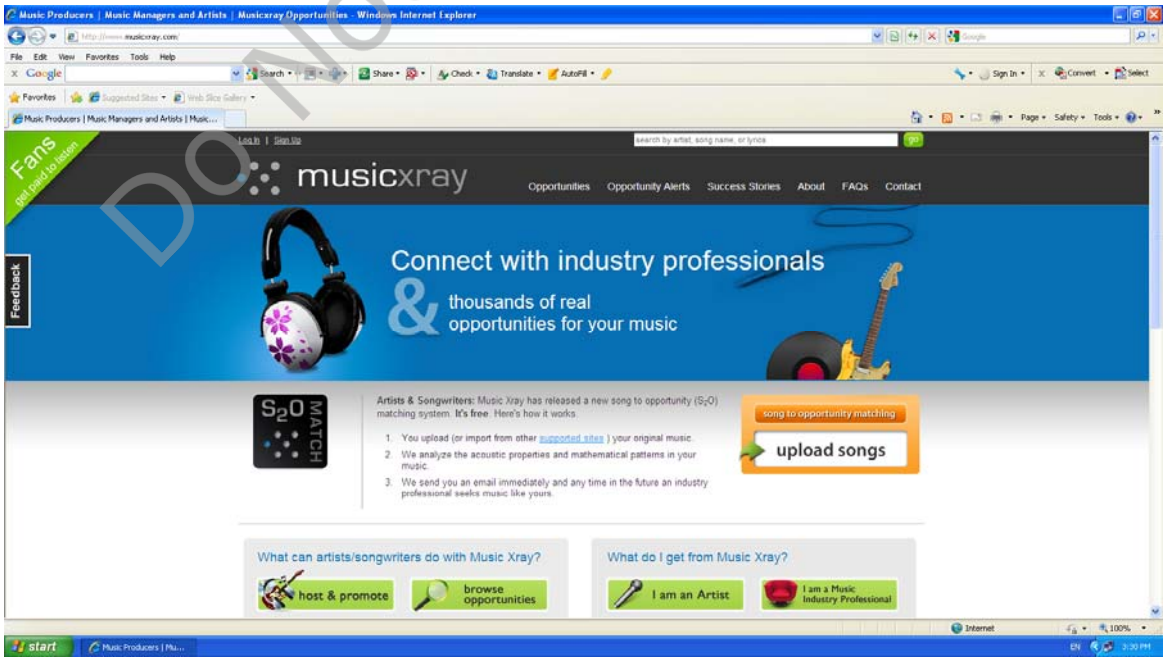
On a trip to LA he confided to a friend,

> "Initially I was not even aware of the fact that I should focus on a business model. My main concern was to develop a site that would improve the success rate of putting industry professionals and artist together."

Music Xray

Music Xray provided an online platform that connected music industry professionals (hereinafter referred to as "professionals") and artists. The concept was simple: artists and songwriters would upload their music to the site (musicxray.com) and professionals would listen to the music with potential development in mind. While an artist could upload his or her music for free, it did not guarantee that it would be heard. There was a cost involved in submitting to opportunities listed by professionals, i.e., making sure you were heard. The fees worked like this: there was a $4 service fee charged by Music Xray when a song was submitted to a professional, regardless of whether the professional charged a submission fee or not. Professionals could provide an evaluation of the music and other services for an additional fee. At the very least, if a song was rejected, the professional was provided with a drop-box checklist of reasons for the rejection, which was returned to the artist. Music Xray also provided *song-to-opportunity* matching, which matched original music to specific criteria established by a professional in search of something special for a specific application such as an advertising song, movie theme or background (see Figure 1).

Figure 1



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The Music Industry in 2011

The music industry landscape that Music Xray entered had been dramatically altered by the Internet in the preceding decade. With the huge drop in compact disc (CD) sales, for which the designated culprits had been file sharing, and the appearance of Apple's iTunes store in 2003, the revenue flows to artists and record labels had changed. Revenue streams in the music industry, with the global recorded music market worth, were an estimated US$25.4 billion in 2009.[2] Digital sales and performance rights revenues had increased, as had touring revenues, which brought in an estimated US$4.5 billion globally in 2009, more than triple the 1999 levels.[3] If one included sales of music hardware, such as iPod sales, it was clear that music-related revenue continued to be strong, but extracting value from music was taking different forms.

File sharing and iTunes were not the only changes the Internet ushered in. The phenomenon of the long tail was very apparent with there literally being thousands of artists offering their music on sites such as youtube.com. A small number of artists, however, such as the Rolling Stones, Madonna, The Birds and Neil Diamond, cornered a major share of the touring revenues during the decade. While the price of downloaded music trended downwards towards zero, the price of live performance moved upwards. For budding artists needing to make a living out of their art, this created a cruel dilemma: they could now record their music for almost free, but generating revenues would have to be done in some other form.

For the record labels, the process of developing, distributing and marketing music had been altered. The traditional model, in which record companies controlled the entire process – from talent discovery to production, distribution and marketing, had withered. The discovery of new music had become fragmented as artists now marketed and distributed their own material online. Production had become easier and the role of producers was shifting.

"With the shake-up going on in the music industry for the past decade, the producer has become a kind of content creator," McCready said. "Powerful producers acting as A&R (Artist & Repertoire) agents will produce an artist on their own dime, and when they have a finished product they will go to the label." Record labels were becoming marketing companies that would invest in completed music products, whereas in the past they would have been involved in artist development.

With a huge oversupply of Internet-boosted, self-made acts; labels losing interest in developing acts; and producers repositioning themselves, industry players scrambled to find a business model. The opportunity Music Xray saw to exploit was that of the job of scouting on behalf of the labels. It helped professionals scan acts and provided artists with a channel by which they could be heard by the labels.

[2] On a retail basis. IFPI, "Recording Industry in Numbers 2010."

[3] Billboard, personal correspondence.

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